Why the Dollar Is at a Discount Abroad

Federal Reserve Board, which is protecting America's stock of gold and helping to regulate international exchange. Left to right—Secretary McAdoo, Comptroller of the Currency John Skelton Williams, Adolph C. Miller, Frederic A. Delano, H. Parker Willis (secretary), W. P. G. Harding, Paul M. Warburg and Charles S. Hamlin.

By AGNES C. LAUT.

Supplies Kept From Germany and American Trade Helped in Neutral Countries by Foreign Exchange Conditions

WE sometimes speak of ships as the bridge to victory. They are, and every workman with a rivet is striking a blow for that victory, but they are more. Ships are shuttles in the loom of international finance that is to keep the world from going into naked bankruptcy, and while the workmen are toiling in the heat of the day to build the ships that will bridge to victory it is well to remember the bankers are sleeping with their boots on, so busy are they weaving at that loom of international finance that is to avert ruin for a literally stripped world after the war.

Sounds cryptic, but it isn't. The mystery lies entirely in the fact that while we may shout the aims of shipbuilding from the housetops, secrecy shrouds the great international court of finance, because we can't have the enemy tangling the skein while the warp and the woof are in the weave. "Spiders spinning their web," your leather lunged soap box orator is fond of calling the bankers. Yet the fact remains if it were not for these bankers one might see the civilized world go where the Bolsheviki have brought Russia, or where demoralized finance brought Mexico, when you couldn't pass a dollar currency for a 4 cent street car ticket.

Triangle of the Enemy.

The reason given for the secrecy is usually that we might play into "the triangle" of the enemy, "the triangle" standing for such a deal in international finance as this: Germany can buy desperately needed supplies from neutral countries only with gold. She needs gold. She must have it. She is stripping her people of ornaments and jewelry to get it; so to increase her supply of gold she dumps a lot of Argentine securities on the Argentine stock market and has the proceeds of the sale sent up to New York in gold. There are two legs of the triangle. Now comes the third. Pershing's army is obtaining huge supplies of equipment from Spain. We owe Spain more than Spain owes us. Isn't there a chance of our paying the difference in trade in that gold coming up from Argentina and so of Germany getting back the proceeds of her sales through us? No, for when the bankers found this very thing was happening with all the neutrals they had an embargo clapped on United States gold, knocking the third leg out of the triangle, though we literally have more gold in this country just now than we know what to do with, more than is good for us, so much that Kaiser William has said he will come and "burgle" us if he can.

That is what is meant by the enemy's "triangle," but the reason for the secrecy is very much subtler than this easily traced three cornered game in gold tag.

Follow his business of equipment for our army in France a bit further! Long as tonnage was scarce and equipment was abundant, it gave better results for us to fill our tonnage with man power than equipment, which could be bought in Europe. That is why we could put a million men across the Atlantic instead of 500,000 inside the year. Now, it is estimated each soldier boy's equipment costs about $1,000. At least, that is what Canada has averaged after putting 500,000 across. We haven't got to the place where we can make averages yet. Granted Spain supplies only $50 a head of that $1,000 equipment. Granted that $50 is made up of saddles, leather, prunes, raisins, fresh fruit, goatskin linings for winter coats or what not. Even if Spain supply only $50 a head for that $1,000 equipment for an army of a million growing into two or three millions. That is a whale of a big bill for Uncle Sam to pay. Add to that bill as much again bought by the other Allies, who give Spain bills of exchange on the allied credits lying in United States banks. How is the bill going to be paid by Uncle Sam just now? By exports? Not while all tonnage is being filled with soldiers and munitions and ordnance. By gold? There is an embargo on gold. We'll suppose a Spanish merchant, who has sold $100,000 worth of horse blankets for the American Army, suddenly needs cash. He takes his American I. O. U. or bill of exchange to his Spanish banker. The banker sniffs a little. He may even sneeze and say "God bless you," but he is shy of cashing that American I. O. U. "With an embargo against gold, how," he asks, "am I to get gold for that $100,000 bill?" The merchant hems and haws and offers it for $90,000. "Come," cajoles the banker. "You know you sold those blankets at about 300 per cent. above prewar prices. You protected your long credit by huge profits, let us say $67,000 for that $100,000 bill," and down slumps the exchange on the American dollar 43 per per cent. below par, only the banker and the merchant didn't talk in dollars. They talked in Spanish currency. Only that is the way the transaction works out at Uncle Sam's end; and that is what has sent the dollar below par in every neutral country where it is below par. In Spain the dollar has fluctuated from 6 per cent. to 25 per cent. below par, in cases going to 43 per cent. below par.

American Financier's Part.

But that is not the end of the subtle little game in international finance. No, on your life it isn't! Put on your crystal lenses now so you can see through stone walls behind closed doors—so you can see why the banker sleeps in his boots. The Spanish banker first! He doesn't draw a long face because he is loaded with a bill he can't cash. That is, he doesn't draw a long face after the merchant goes out. Instead, it is a safe bet he licks his lips. Here is what he says to his Little Inside Self. "Good old don! A clean, sure, safe $100,000 for $67,000; $33,000 gain this day. More power to it! Methinks when $67,000 of my coin will buy $100,000 of Uncle Sam's goods, it is a good time to buy, and I'll buy while the buying is good and trust to luck or God (he sneezes here and blesses himself) for ships to get the goods across all in due time." The chances are the Spanish banker will clear another $33,000 on exchange on the goods bought and will pay merely a fraction of his huge profits in storage and delay.

Now take the American financier's side of the little financial game. He has to pay that $100,000 bill. He himself will probably get his pay straight from one of Uncle Sam's Federal reserve exchange departments; but how to get that $100,000 across to Spain? In gold? Not on your life with the danger of submarine and enemy "triangle." How then? In goods! By shipping American goods; and the United States financier sits up overnight and hugs himself with glee at "the one over" he is putting across on his Spanish dicker. The dollar at a discount (plus the gold embargo) is literally acting as a magnet to draw American goods to Spain to create international trade to pay war debts. It is literally creating an irresistible undertow in the foreign market for American trade.

Foreign Trade Stimulated.

"Well, who is that benefiting?" asks your soap box orator, who considers all financiers to be wicked spiders spinning webs for such noisy bluebottle flies as he. (I only wish we could do the same to the leather lunged orator's arguments as we can to the blow eggs of the bluebottle fly.) "Who is it going to benefit, if we pay our war debts to Spain in American exports because the dollar is below par?" It is going to benefit every factory that ships goods to Spain and every workman who works in every such factory. It is going to benefit every farm that ships wheat to Spain and every hired man who works on a farm shipping wheat to Spain. All because the dollar is below par in Spain! All because the big bankers are playing their game as deftly as the shipbuilders are driving their rivets, but the bankers can only play their game if the shipbuilders drive their rivets; for the exports can only go forward if there are ships.

Now do you see why ships are the shuttles in the loom of international finance that is to keep the world from going into naked bankruptcy? Mr. Ross, president of the Marine League, has been telling us this for ten years. Only we hadn't sense to listen till prices went down and exchange went to pieces when the war broke out. The really technically correct way to express all this so nobody will understand it is to say that "an adverse exchange rate is a great regulator of trade and stimulant of exports as well as deterrent to our imports." In plain Billy Sunday language, it makes the other fellow buy and it makes us do without and save.

Or take the very opposite process, when the dollar goes so high above par that when the other fellow buys from us he is paying us 300 per cent. higher prices than we are asking. If the buyer is an enemy I suppose even Billy Sunday would sneeze at him and bless him, but what if he were one of our war stripped, impoverished allies? There would be another kind of job for the court of international finance.

Italy is a case in point. Italy cast off her allegiance to the Triple Alliance with one pagan and one worse than pagan and came in with the Allies. Now Italy has been buying very heavily from us, roughly three times more heavily than we have been buying from her; and her exchange has fallen from a third to a half its buying power in times of peace. There are other factors hurting Italy's exchange too, such as her defeat last year and a failure of a war issue; but if we could buy from Italy as Italy buys from us, exchange would soon right itself; so the American financiers have sent a representative to see how we can help Italy to pay her war debts to us by exchange of goods, or credit, rather than gold.

There are peculiar reasons why exchange should not be permitted to press burdensomely on any of our Allies. They are spending life blood to save democracy for the world. The neutrals are piling up huge profits and reaping the benefits. So the international court of finance intervenes here. International court of finance by courtesy only in name, yet, though there is not the slightest doubt if the war lasts another year, there will be a formal international court of finance to protect allied finances after the war, just as the American Federal Reserve Board has protected American finance during the war. How many people, for instance, know that every Wednesday evening the Federal reserve banks have data sent in to them to take stock of the world's finance? In the United States are 12,000 dealers in foreign exchange. Every Wednesday evening there is a report on all exchange proceedings of the week sent in to the Federal reserves.

By this means every dollar of gold going in or out of the country can be traced and known; so that those good alarmists sitting up overnight for fear our finances are going to flinders because the dollar is below par in neutral countries need not lose more sleep. The Federal reserve exchange department sitting up examining those reports won't let the gold get away and they will see our foreign obligations paid in a way to benefit every hand that works.

Dollar Below Par Helps.

The dollar below par instead of being a bad sign to-day is a clever play on the chess board to send our trade into European channels.

Another of the big man sized jobs for the financiers just now is the placing of the various Liberty Loans and the distribution of the funds after they come in. It is no secret to tell now that when the first Liberty Loan was launched one mistake was made just for a few days. As the subscriptions came in, just for a week, they were centred in too few banks. That is, funds drawn from a multitude of banks all over the country suddenly poured into too few reservoirs. Those were nights bankers did sleep in their boots. There were reserves suddenly dried up in some little sections and there were reserves suddenly flooded to flush in other sections, but that lasted only a few days and happened only during the first loan. What happens now is an absolute safeguard against the bulge squeeze policy. The next Liberty Loan comes along for its six or eight billions. These billions will be gathered in countless rivulets from countless sources of savings and industries. They will be scattered at once by the banks to countless war industries. That is, from general industry the loans are suddenly concen-

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